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SUBJECT: WENZHOU - AN ENTREPRENEURS TOWN

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11. (SBU) Summary: Sitting far from Beijing on the East coast of China, Wenzhou, Zhejiang Province is known for both its vibrant, fast-growing economy and its many Christian churches. Many people with whom Congenoffs spoke during a recent visit to the city attribute Wenzhou's economic growth to the Wenzhou people's entrepreneurial spirit. Local government officials said that they maintained a "light touch" over the economy in support of entrepreneurs. Labor and Social Security Bureau officials reported that migrant laborers made up 62 percent of all employees in the city. The city went to great efforts to protect migrant laborers including enforcing minimum wages and allowing them to join the pension system. Reports on Wenzhou's religious situation and the CHINT company will be reported septels. End Summary.

12. (U) Congenoffs visited the mid-sized coastal city of Wenzhou on December 14-15 to discuss its economic development, migrant labor and pension policies, and religious situation. Wenzhou is the third largest city in Zhejiang Province and had a GDP of 20 billion USD last year. Its economy has grown at a rate of over 12 percent per year since 1997. Wenzhou's manufacturers specialized in light industries; its factories mainly produced lighters, garments, and shoes. In a meeting with Congenoffs on December 14, Vice Mayor Chen Hongfeng described Wenzhou as one of Zhejiang Province's three key cities and said it was one of the first coastal cities to open itself to the outside world for investment. He said Wenzhou occupied 1,700 square kilometers and was divided into three administrative districts and two county level cities. It has a population of 7.7 million people, 500,000 of which live overseas and 1.8 million of which live elsewhere in China. It also had nearly 3 million migrant laborers living in the city.

The Wenzhou Model

13. (SBU) According to Chen, Wenzhou was the birthplace of private enterprises in China and these enterprises had made the Wenzhou's economy flexible and dynamic. Ninety-nine percent of all enterprises in Wenzhou were privately owned. There were 200,000 individual household factories in Wenzhou and approximately 130,000 private enterprises. Wenzhou Bureau of

Foreign Trade and Economic Cooperation Deputy Director Pan Pingping, in a separate meeting, said that entrepreneurs played a central role in Wenzhou's development model, which was currently being studied by cities in Western and Central China. Pan said there were basically three economic development models in China: the Wenzhou model, Northern Jiangsu model and the Pearl River Delta model. Under the Wenzhou model, the economy was dominated by private enterprises and the government maintained a "light touch." The Jiangsu model emphasized the role of township enterprises in economic development and the Pearl River Delta model was dependent on strong relations with Hong Kong and Macau for economic growth.

14. (SBU) Pan said Wenzhou produced a large number of entrepreneurs because of the nature of its people. Both Chen and Pan described the people of Wenzhou as hard-working and committed to their businesses. Pan said Wenzhou people were willing to travel anywhere and undergo any hardship to sell their products. They were creative and could find solutions to problems. For example, he claimed, when a Wenzhou person travels on a train and, if there was no space on the train, he would sleep in the corridor of the train. There were 135 Wenzhou Chambers of Commerce throughout China and there were Wenzhou businessmen in remote places including Xinjiang, Inner Mongolia and Tibet. There were also approximately 500,000 Wenzhou people living in 82 countries around the world.

15. (SBU) In a conversation with Congenoffs on November 24, Wenzhou Entrepreneur and CHINT Chairman Nan Cunhui shared the same views as Chen and Pan. According to Nan, there was a long history of Wenzhou people going overseas and becoming entrepreneurs. He pointed to Wenzhou's geography as a contributing factor. To the west of Wenzhou were mountains and to the east was the sea. If someone wanted to make money, they

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needed to go abroad. In addition, Wenzhou was far from Beijing and because of the mountains, it was difficult for anyone from Beijing to travel to Wenzhou. Wenzhou people could not rely on Beijing for assistance and learned how to take care of themselves. This led to the creation of an entrepreneurial culture and entrepreneurs became Wenzhou's main product.

16. (SBU) Nan explained that relationships played an important role in Wenzhou. Many entrepreneurs were able to start their businesses by borrowing money from friends and family members. Issues of trust and reputation were therefore very important. In his case, Nan got money from his parents and siblings to start CHINT and his family now owns over fifty percent of his company. He added that it was normal for Wenzhou people to invest their money in the enterprises of their friends and relatives. During a dinner on December 14 with Nan and local government officials, CHINT Vice President Lin Kefu said although it was now easier for companies such as CHINT to get financing from banks, CHINT did not need such financing since the company was flush with cash and also was able to get financing from its suppliers. Because of CHINT's high credit and large purchasing quantity, suppliers often were willing to provide raw materials to CHINT first, and allowed CHINT to repay them after a few months.

#### The Government's Role

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17. (SBU) According to Pan, the Wenzhou municipal government implemented several programs to support economic growth and improve the investment climate in Wenzhou. In the late eighties, the government implemented a program called "8 to 8" that constructed 28 infrastructure facilities in eight years. Pan added that the government was still trying to strengthen the city's infrastructure and open up more traffic links to Wenzhou. The city was working on attracting international carriers to

its airport. It would also add more wharfs to its port and was constructing a railway that would connect Fuzhou and Ningbo to Wenzhou. In addition, the construction of the Hangzhou Bay Bridge would decrease the drive time from Wenzhou to Shanghai to only three to four hours.

18. (SBU) Pan said the government was also trying to upgrade the quality of Wenzhou products and increase the number of brand name goods produced in Wenzhou. The government wanted to change the impression that Wenzhou goods were of low quality and was implementing a program called "3,5,8" which would increase the number of Wenzhou brand name goods in the next eight years. Wenzhou already manufactured 42 Chinese brand name goods and six international recognized brand name goods. Pan added that the government also had preferential policies to encourage the development of enterprises, but did not provide any details on the policies.

#### Foreign Investment

19. (SBU) Pan and Chen were interested in attracting more foreign investment in order to upgrade Wenzhou products. According to Pan, Wenzhou had 2,400 enterprises that received foreign investment. Hong Kong and Taiwan were the largest investors and invested in over 700 companies. Europe was the third largest investor followed by the United States and Japan. While the United States was not one of the top three investors, Wenzhou's biggest joint venture project was the Te Lu Lai power plant built by Zhejiang Power Development Company and Sithe Asia (a U.S. company) in 1998. The power generated by the plant accounted for thirty percent of all the power used by Wenzhou city. Pan added that Wenzhou was particularly interested in attracting more high technology investors and had plans to build a 400 square kilometer industrial park along the coast that would be open to investors. Chen noted that Wenzhou had a sister city relationship with Union, New Jersey and was working with Kean University to establish a satellite campus in Wenzhou.

#### IPR: Very Important to Wenzhou

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110. (SBU) According to Pan, the Wenzhou government understood the importance of protecting intellectual property rights (IPR). Wenzhou Bureau of Foreign Trade and Economic Cooperation Fair Trade Department Director Zhou Xiaoping said Wenzhou had passed a complete set of laws and regulations on IPR, but there were problems in implementation. Many Wenzhou companies were small-or medium-sized and could not afford to invest in research and development and sometimes infringed on the IPR rights of others. On the other hand, small companies also did not have the ability or financial resources to go after people who violated their IPR rights. He assured Congenoffs that when his office received any information that indicated there has been an IPR infringement, it immediately contacted relevant government offices and investigated the incident.

111. (SBU) Zhang added that IPR cases often concerned trademark issues and were difficult to resolve. Many cases involved multinational companies (MNCs) and Chinese domestic companies. Some MNCs had overused the patent system, he complained. These companies obtained a patent for their products many years ago. When these patents expired, these companies often took the key points of the old patent and applied for a new patent. Therefore, it was difficult to determine whether the patent still applied. If companies were sued, they should hire IPR experts and lawyers to carefully look at the patent. Most Wenzhou enterprises were small and often stopped producing a product when faced with a lawsuit. However, he knew of two

cases in which the Wenzhou company was able to prove that it had not infringed on the MNC's IPR. In the first case, Phillips sued a Wenzhou company for copying their razors. The Wenzhou company's lawyers and IPR experts were able to find weaknesses in Phillips' case and persuaded a Chinese court to rule in their favor. In the second case, a U.S. company sued the U.S. trading partner of a Wenzhou company for copying its products. The U.S. court has not ruled yet on the case but it appeared that there was no patent infringement.

¶12. (SBU) It appeared that at least one Wenzhou enterprise understood the importance of IPR. During discussions with Congenoffs on December 15, CHINT Vice President Lin said that IPR was very important to CHINT. CHINT produced electrical equipment and was building a 60 million RMB high technology plant in Shanghai. CHINT also had an in-house research and development unit and sponsored telecommunications research in Beijing, Shanghai and Silicon Valley. Lin said CHINT initially did not understand the importance of IPR and copied products. As the company grew, it began to understand the importance of protecting their products and got its own patents. It now had 40 to 50 patents, some of which were recognized internationally. It also had a counterfeit unit at its Wenzhou headquarters, which investigated IPR cases. CHINT also required their engineers to sign confidential agreements, stating that they would not share the company's designs with competitors.

#### Migrants and Pensions

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¶13. (SBU) Vice Mayor Chen said in his meeting that because migrants were needed to support the Wenzhou economy, the local government paid great attention to migrants' living and work conditions. Government officials considered this type of work as part of their duty to establish a harmonious society in Wenzhou. Labor and Social Security Director Yang Ridong in a separate meeting provided a detailed briefing on Wenzhou's migrant laborers. He said the Wenzhou economy had attracted a large number of migrant workers and there were 2.7 million migrants living in Wenzhou in 2005. 62 percent of all employees in the city were migrant workers and they worked primarily in the garment, shoes, pens, and restaurant industries. Migrant workers came primarily from Hubei, Guizhou, Henan, Anhui and Jiangxi and 92.6 percent had a junior high or below education.

¶14. (SBU) Yang reported that the Wenzhou government provided social insurance to migrants, helped migrants to get back wages and standardized migrants wages and hours. In particular, the government had created a group which represented different departments within the city government that coordinated services

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to migrants and looked at ways of enhancing the government's protection of migrants. The government had also encouraged migrants to sign formal labor contracts with their employers that specified their rights. It inspected factories to ensure that workers rights were not abused and issued strict penalties to companies that violated workers' rights. The government had also imposed a standard wage system which had four levels of minimum wage that ranged from 540 RMB (70 USD) per month to 750 RMB (100 USD) per month. Because Wenzhou city included both rural and urban areas, the living standards in each area were different. The different levels of minimum wage were based on the living standards of the area. For part-time workers the minimum wage ranged from 4.6 RMB (0.60 USD) to 6.4 RMB (0.82 USD) per hour. According to Yang, the law specified that workers should only work for eight hours a day for five and a half days a week. However, in reality most workers had two to three hours of overtime per week.

¶15. (SBU) The government also tried to provide training to

migrant workers and organized meetings between migrant workers and factory owners to discuss training. Yang said that the government was also looking to expand migrant workers' access to medical treatment and had set up a special fund for migrant workers medical expenses. It had also reformed the household registration or hukuo system to make it easier for migrants to get a hukuo. Yang said the government was also interested in expanding the cultural life of migrant workers. It launched a series of cultural activities aimed at migrants and allowed migrants to visit museums and libraries free of charge. Yang noted that the local government provided compensation to schools willing to accept children of migrant workers. Currently 99 percent of all primary schools and 90 percent of all secondary schools in Wenzhou were willing to accept children of migrant workers. He did not have any figures, however, on how many migrant children attended schools.

¶16. (SBU) Yang added that the government had tried to expand social insurance coverage to include migrant workers. All migrant workers had access to work-related injury insurance. Currently, employers bear the costs for migrants joining the insurance program. They pay the same price as Wenzhou-registered residents and could qualify immediately for the insurance. At the same time, the government was researching whether migrants could join the municipal social insurance program. When asked about pensions, Yang said that Wenzhou had one pension plan which migrants could join. Congenoff noted that many cities allowed migrants to move their pension accounts but this had made it difficult for migrants to receive their pensions since their new city needed to have the same system as their previous one. In addition, most rural areas did not have pension systems making it impossible for migrants to receive their pensions if they moved back to their home village. Shanghai had a separate pension plan for migrants which allowed the migrant to receive a cash sum from their pensions. Yang said Shanghai was a special case and Wenzhou just allowed migrants to move their accounts. He said the amount of money migrants received depended on the living standard of the area in which they worked and the number of years they worked in the job. There was no minimum requirement for the number of years one needed to work to receive a pension and women could begin to receive a pension at 50 years of age and men at 60 years of age. For government workers, women retired at 55 and men at 65.

¶17. (SBU) When asked about pension fund management, Yang adamantly said that Wenzhou's pension fund was tightly controlled. It was understood that the pension fund was for society's benefit and not for the fund manager's benefit. The fund was jointly managed by the Treasury Bureau and the Labor and Social Security Bureau. The Treasury Bureau collected the fees and then transferred the funds to the Labor and Social Security Bureau, which would then transfer the funds to individual accounts. Investment was tightly controlled and pension funds could only be used to purchase government bonds or deposited in state-owned banks. He indicated that there was no real pressure on the pension fund managers to get high returns on the funds investment as the central government would cover any future shortfalls. He said it did not matter if there was not enough money for future payments since this was not just a problem for Wenzhou but for the entire country.

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¶18. (SBU) Comment: The rapid economic growth of Wenzhou is one of the success stories of Eastern China. While this growth has improved living standards in the city, it has also attracted large number of migrants. For now, the local government appears to be serious about addressing migrant needs and understands the importance of migrant labor to Wenzhou's economy. End comment.  
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